

# New Zealand Weekly Data Wrap

8 October 2021



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See [page 4](#).

## Forecast updates

Recent ANZ NZ Forecast Updates can be found [here](#).

- [NZ farmgate milk price forecast revised over \\$8](#)
- [RBNZ MPR Review: Lift off into a stormy flight path](#)
- [NZ Economic Outlook: Two steps forward, one step back](#)
- [NZ Property Focus: Rent is due](#)
- [NZ Forecast Update: Inflation with a 4-handle](#)

Our other recent publications are on [page 2](#).

## What's the view?

- GDP constrained by supply more than demand
- Labour market very tight
- Inflation above target
- Further OCR hikes towards a terminal rate of 1.5% by end of 2022 expected.

Our forecasts are on [page 3](#).

## Key risks to our view



The tail of the outbreak won't die out, damaging consumer and business sentiment.



Housing is at a turning point. Momentum could fade faster as rates rise, or have more significant economic impacts.



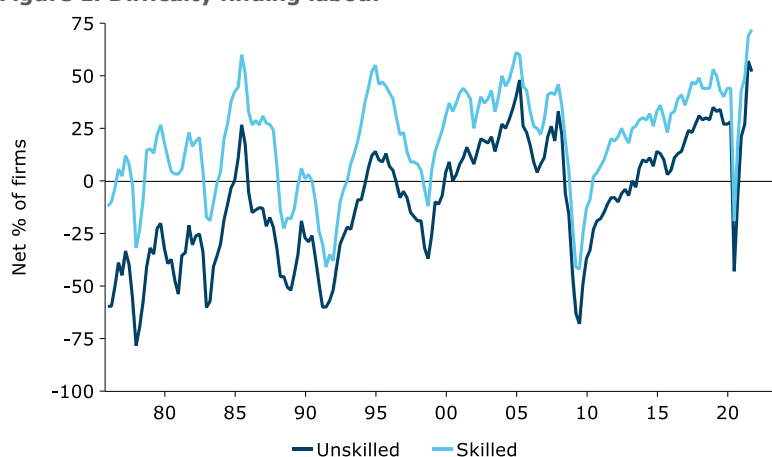
Conversely, an overheated economy and surging inflation expectations could be hard to rein in.

## What happened this week?

For the first time since 2014 the RBNZ [lifted the Official Cash Rate \(OCR\)](#) this week, increasing it from the record low of 0.25% to a still-low 0.5%. The hike was widely expected, with the RBNZ making it clear back in August they intended to continue reducing monetary stimulus, and it was only the poor timing of the latest lockdown that caused them to hold off. In their remarks, the Monetary Policy Committee noted that "demand shortfalls are less of an issue than the economy hitting capacity constraints", in part due to the efficacy of the fiscal response. And this economy is highly capacity constrained. That has been evident for some time now, with recent data continuing to emphasise the upside risks around inflation. In the Q3 Quarterly Survey of Business Opinion, capacity utilisation reached a record high, while difficulty finding labour was around record levels too (figure 1). We haven't seen shortages of supply or labour being [this much of a constraint](#) in New Zealand since the 1973 oil crisis. With core inflation rising and the labour market incredibly tight, not hiking interest rates would only have increased the chance of a wage-price spiral getting out of hand, and needing an even larger lift in interest rates later on.

It is worth noting here that the RBNZ doesn't view their current rate hikes as a significant brake on the economy. Rather, they want to bring monetary policy back to a point where it's having a neutral impact on capacity pressures. Basically, taking their foot off the accelerator, but not slamming on the brakes. However, we continue to think it's optimistic that the OCR can be lifted all the way to 2% (as in the August MPS forecast). This economy has piled on a mountain of debt to get through the crisis, and it won't take much of a lift in interest rates for that debt to become a serious anchor. Ongoing lockdown won't do much for confidence either. As such, we continue to expect that the RBNZ will only gradually raise the OCR to a peak of 1.5% by the end of 2022 – and there's downside risk even to that.

Figure 1. Difficulty finding labour



Source: NZIER, Macrobond, ANZ Research

## Key data summary

**NZIER Quarterly Survey of Business Opinion – Q3.** Capacity utilisation hit a new record, while confidence [remained above](#) pre-pandemic levels.

**ANZ Commodity Price Index – September.** [World prices lifted](#) 1.5%.

**GlobalDairyTrade auction.** As we expected, prices were unchanged.

**RBNZ OCR Review – October.** OCR lifted 25bp to 0.5% – see our [Review](#).



## Looking ahead



### Recent Publications

ANZ produces a range of in-depth insights.

- [NZ Property Focus: Rent is due](#)
- [NZ Insight: RBNZ Speech Review](#)
- [Not just rugby: NZ beating Australia on wage growth](#)
- [NZ Insight: Increasing the contingency fund](#)
- [NZ Insight: What would it take to derail OCR hikes?](#)
- [NZ Insight: A quick look at the high-frequency data](#)
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- [NZ Agri Focus: Springing into action](#)
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- [NZ Insight: Quarterly income GDP](#)
- [NZ Insight: Māori employment during COVID / Hunga Māori Kore whai-mahi i te wā Mate Urutā](#)

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### Data calendar

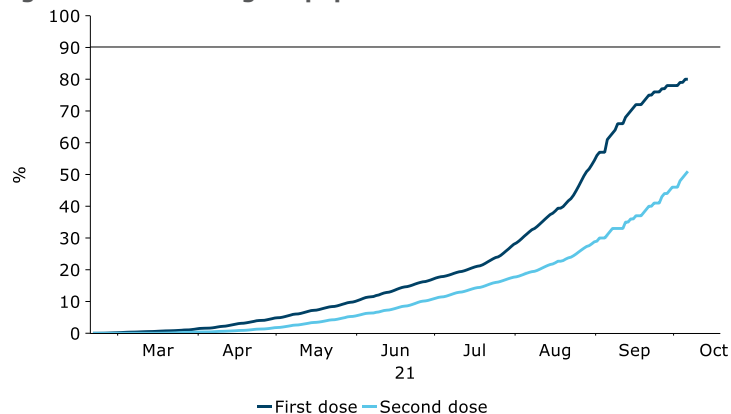
| Date                 | Data/event                                   |
|----------------------|--|
| Tue 12 Oct (10:00am) | <a href="#">ANZ Truckometer - Sep</a>        |
| Tue 12 Oct (10:45am) | Net Migration – Aug                          |
| Tue 12 Oct (10:45am) | Electronic Card Transactions – Sep           |
| Wed 13 Oct (10:45am) | Food Price Index – Sep                       |
| Wed 13 Oct (10:45am) | Rental Price Index – Sep                     |
| Wed 13 Oct (1:00pm)  | <a href="#">ANZ Business Outlook – Oct P</a> |
| Thu 14 Oct (09:00am) | REINZ House Prices – Sep                     |
| Fri 15 Oct (10:30am) | BusinessNZ Manuf PMI – Sep                   |
| Mon 18 Oct (10:30am) | Performance Services Index Sep               |
| Mon 18 Oct (10:45am) | <b>CPI – Q3</b>                              |
| Wed 27 Oct (10:45am) | Merchandise Trade – Sep                      |
| Wed 27 Oct (1:00pm)  | <a href="#">ANZ Business Outlook – Oct F</a> |

### Many reasons for the RBNZ to tread cautiously

Now that the RBNZ has one hike under their belt – with minimal market reaction to boot – what next? Looking ahead, things are pretty murky. There is a very unfortunate balance of risks building, with upside inflation risks rising even as growth risks are to the downside. Capacity constraints, supply disruptions, and the tight labour market are likely to drive inflation uncomfortably above the RBNZ’s target range. Our current forecast is for 4.2% CPI inflation in Q3 – and we see significant upside risks even to that (our Q3 CPI Preview will be released next week). The RBNZ will be able to get ahead of this rise in inflation by continuing to raise the OCR.

But it will come at a cost. While tighter monetary policy will better align aggregate demand with the economy’s supply capacity, there will be some businesses and households who feel the pinch more than others, particularly those most adversely impacted by the current lockdown. With heightened Alert Level restrictions dragging on even longer than in 2020, and with the Government abandoning the elimination strategy and starting to relax said restrictions, this outbreak could get worse before it gets better. Should restrictions linger, and erode economic confidence, the RBNZ could end up facing a tough trade-off: support growth or control inflation. But that trade-off is the reason central banks were made independent in the first place. Achieving a higher level of vaccination will be a key ingredient for the recovery, but progress here appears to be slowing (figure 2).

**Figure 2. Share of eligible population vaccinated**



Source: Ministry of Health, Macrobond, ANZ Research

### The week ahead

**ANZ Truckometer – September (Tuesday 12 October, 10:00am).**

**Net Migration – August (Tuesday 12 October, 10:45am).** Daily border crossings have dropped to zero in recent weeks.

**Electronic Card Transactions – September (Tuesday 12 October, 10:45am).** We expect a small increase after the sharp fall in September.

**Food Prices – September (Wednesday 13 October, 10:45am).** Food prices usually decline in September – but with so many cost pressures coming through, an increase in prices wouldn’t be too surprising either.

**Rental Price Index – September (Wednesday 13 October, 10:45am).** We expect a 0.2-0.3% m/m rise.

**ANZ Business Outlook Flash – October (Wednesday 13 October, 1:00pm).**

**REINZ House Prices – September (Thursday 14 October, 9:00am).** Low listings are supporting prices – but a turning point is [on the horizon](#).

**Performance of Manufacturing Index – September (Friday 15 October, 10:30am).** Likely still contractionary with Auckland at Level 4 over the period.



## Markets and forecasts

### Markets outlook

Local markets were unperturbed by the RBNZ's decision to lift the OCR this week. Although it was the first rate hike in 7 years and it puts New Zealand near the front of the pack in the global policy normalisation stakes, the move was 90% priced into markets and almost unanimously expected by economists. As discussed in detail on page 1, we expect the RBNZ to continue to hike in 25bp increments, taking the OCR to 1.25% by May and to 1.50% by the end of 2022. While we acknowledge that **a lot needs to go right** for our forecasts to be met, market pricing is more confident, with the next three hikes (November, February and May) fully priced into the Overnight Indexed Swap (OIS) curve. Although that almost exactly matches our forecast, it's the balance of risks that has us questioning whether lofty market expectations can be sustained, particularly in light of the RBNZ's recent **Kōtuku speech** that indicated a preference for moving in measured steps of 25bps. With the short end pressing up against that limit, that leaves it exposed to a negative shock. Long end bond yields have continued to rise, led by US Treasury bonds, which have, in turn, succumbed to stagflation fears, and the prospect of Fed tapering. Bond investors have not really had to demand a premium for structurally higher inflation for three decades, but stagflation could change that. And with the local short end fully priced, and global bond yields under upward pressure, yield curves are biased to continue steepening. In FX markets, the NZD has lost its shine as US bond yields have risen, and other central banks inch closer to tightening. A higher OCR does mean more carry for the NZD, but we expect that to be more influential against negative interest rate currencies like EUR and JPY.

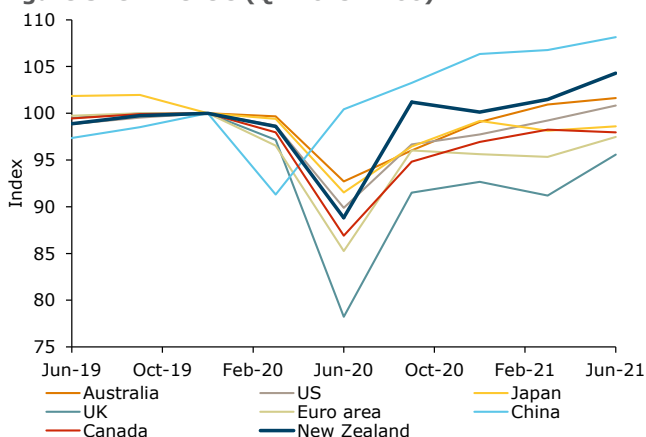
| FX rates       | Actual |        |       | Forecast (end month) |        |        |        |        |        |
|----------------|--------|--------|-------|----------------------|--------|--------|--------|--------|--------|
|                | Aug-21 | Sep-21 | Today | Dec-21               | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 |
| NZD/USD        | 0.706  | 0.686  | 0.693 | 0.720                | 0.720  | 0.720  | 0.720  | 0.720  | 0.720  |
| NZD/AUD        | 0.964  | 0.955  | 0.948 | 0.960                | 0.960  | 0.960  | 0.960  | 0.960  | 0.960  |
| NZD/EUR        | 0.597  | 0.593  | 0.600 | 0.610                | 0.600  | 0.585  | 0.590  | 0.590  | 0.590  |
| NZD/JPY        | 77.6   | 76.9   | 77.4  | 80.6                 | 80.6   | 80.6   | 80.6   | 80.6   | 80.6   |
| NZD/GBP        | 0.513  | 0.511  | 0.509 | 0.518                | 0.511  | 0.503  | 0.493  | 0.486  | 0.483  |
| NZ\$ TWI       | 74.9   | 73.7   | 74.1  | 75.8                 | 75.3   | 74.8   | 74.7   | 74.5   | 74.3   |
| Interest rates | Aug-21 | Sep-21 | Today | Dec-21               | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 |
| NZ OCR         | 0.25   | 0.25   | 0.50  | 0.75                 | 1.00   | 1.25   | 1.50   | 1.50   | 1.50   |
| NZ 90 day bill | 0.46   | 0.65   | 0.65  | 1.00                 | 1.27   | 1.52   | 1.60   | 1.60   | 1.60   |
| NZ 10-yr bond  | 1.82   | 2.09   | 2.11  | 2.10                 | 2.20   | 2.50   | 2.50   | 2.50   | 2.50   |

### Economic forecasts

|                          | Jun-21 | Sep-21      | Dec-21     | Mar-22     | Jun-22     | Sep-22     | Dec-22     | Mar-23     | Jun-23     |
|--------------------------|--------|-------------|------------|------------|------------|------------|------------|------------|------------|
| GDP (% qoq)              | 2.8    | <b>-7.0</b> | <b>7.5</b> | <b>0.2</b> | <b>1.0</b> | <b>0.9</b> | <b>0.8</b> | <b>0.7</b> | <b>0.6</b> |
| GDP (% yoy)              | 17.4   | <b>-4.2</b> | <b>4.1</b> | <b>2.9</b> | <b>1.2</b> | <b>9.8</b> | <b>2.9</b> | <b>3.4</b> | <b>3.0</b> |
| CPI (% qoq)              | 1.3    | <b>1.5</b>  | <b>0.4</b> | <b>0.6</b> | <b>0.5</b> | <b>0.8</b> | <b>0.3</b> | <b>0.3</b> | <b>0.4</b> |
| CPI (% yoy)              | 3.3    | <b>4.2</b>  | <b>4.1</b> | <b>3.8</b> | <b>3.0</b> | <b>2.4</b> | <b>2.3</b> | <b>1.9</b> | <b>1.8</b> |
| Employment (% qoq)       | 1.0    | <b>-0.1</b> | <b>0.7</b> | <b>0.7</b> | <b>0.5</b> | <b>0.4</b> | <b>0.4</b> | <b>0.4</b> | <b>0.3</b> |
| Employment (% yoy)       | 1.7    | <b>2.2</b>  | <b>2.3</b> | <b>2.4</b> | <b>1.8</b> | <b>2.3</b> | <b>2.0</b> | <b>1.7</b> | <b>1.6</b> |
| Unemployment Rate (% sa) | 4.0    | <b>4.0</b>  | <b>4.0</b> | <b>3.9</b> | <b>3.9</b> | <b>3.8</b> | <b>3.8</b> | <b>3.9</b> | <b>3.9</b> |

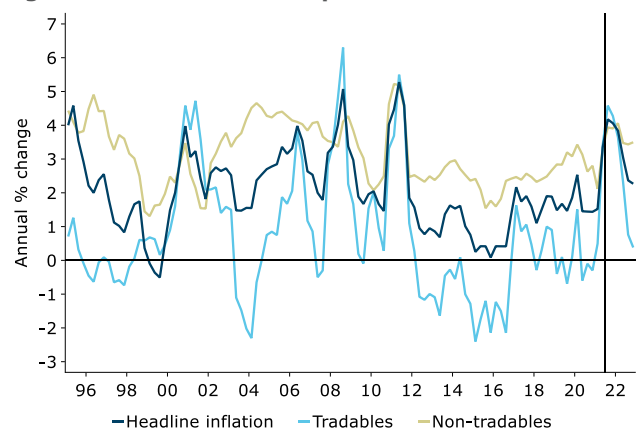
Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

Figure 3. GDP levels (Q4 2019= 100)



Source: Macrobond, Statistics NZ, ANZ Research

Figure 4. CPI inflation components



Source: Statistics NZ, Macrobond, ANZ Research



## Contact us

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### Meet the team

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Last updated: 3 September 2021

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